

Federal Credit

RIA Federal Tax Handbook

¶ 2363. Nonbusiness energy property credit—Form 5695.

For property placed in service after 2005 and before 2008 (Code Sec. 25C(g)), a taxpayer can claim (on Form 5695) a lifetime nonrefundable credit of up to \$500 for making qualifying energy saving improvements to his home, but only \$200 of this credit amount may be for qualifying window expenditures. (Code Sec. 25C(a); Code Sec. 25C(b)) The expenses must be made on or in connection with a dwelling unit located in the U.S., owned and used by the taxpayer as his principal residence (as defined in Code Sec. 121), and originally placed in service by the taxpayer. (Code Sec. 25C(c); Code Sec. 25C(d)) FTC ¶ A-4750; USTR ¶ 25C4; Tax Desk ¶ 569,550

The credit per improvement is:

(1) 10% of the cost of energy efficient building envelope components which meet criteria established by the 2000 International Energy Conservation Code. These consist of: insulation materials or systems that reduce heat loss/gain; exterior windows (including skylights); exterior doors; and certain metal roofs with special coatings (which meets the Energy Star requirements) designed to reduce heat gain. (Code Sec. 25C(c)(2)) The components must be expected to last for at least five years. (Code Sec. 25C(c)) The 5-year requirement is met if the manufacturer offers a 2-year warranty to repair or replace at no extra charge.

(2) Residential energy property expenses (including labor costs for onsite preparation, assembly, or original installation (Code Sec. 25C(d))) which meet specific standards set forth in Code Sec. 25C(d)(2)(B) and Code Sec. 25C(d)(2)(C), in an amount up to:

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... \$300 for the cost of energy-efficient building property (electric heat pump water heater, electric heat pump; geothermal heat pump, central air conditioner, and natural gas, propane, or oil water heater meeting specific energy efficiency standards).

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... \$150 for a natural gas, propane, or oil furnace or hot water boiler.

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... \$50 for an advanced main air circulating fan. (Code Sec. 25C(a)(1); Code Sec. 25C(b)(3); Code Sec. 25C(d)(2)) FTC ¶ A-4751; USTR ¶ 25C4; Tax Desk ¶ 569,551

Taxpayers can rely on manufacturers' certification with regard to energy requirements until IRS withdraws it. Taxpayers who purchased siding before Dec. 1, 2006, can rely on the manufacturer's certification that it was an eligible building envelope component.

Any expense that otherwise qualifies for the credit won't fail to qualify merely because it was made for two or more dwelling units. In those cases, the amount of the credit is computed separately for the amount of the expenditure made for each dwelling unit. (Code Sec. 25C(e)(2)(B)) FTC ¶ A-4755; USTR ¶ 25C4; Tax Desk ¶ 569,555 If a credit is allowed for an expense for a property, the increase in the basis of that property that would otherwise result is reduced by the credit allowed. (Code Sec. 25C(f); Code Sec. 1016(a)(34)) FTC ¶ A-4757; USTR ¶ 25C4; Tax Desk ¶ 569,557

Massachusetts

Home Heating Fuel Deduction for Certain Taxpayers

Certain owners and renters of residential property located in Massachusetts may claim a home heating fuel deduction up to a maximum of \$800 for the cost of home heating oil, natural gas, and propane purchased between November 1, 2005 and March 31, 2006. A taxpayer who qualifies for the deduction may apply the deduction in taxable year 2005 for purchases made between November 1, 2005 and December 31, 2005. If the taxpayer does not take the full \$800 deduction in taxable year 2005, the taxpayer may take the remainder in taxable year 2006 for purchases made in between January 1, 2006 and March 31, 2006.

For State Tax Purposes, the deduction is available to single persons whose adjusted gross income is \$50,000 or less; and joint filers and heads of household filers whose adjusted gross income is \$75,000 or less. For more information, see: